




3 1761 11224511 3

Nov. 28,



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto



<https://archive.org/details/31761112245113>

Canada. Railways, Canals and Telegraph
Lines, Standing Committee
May 1957/5
HOUSE OF COMMONS

First Session—Twenty-third Parliament

1957

Government
Publications

1957/58
60.2
STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: GORDON K. FRASER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2 including Third Report

BILL No. 27

(Letter C of the Senate), An Act respecting The Bell Telephone
Company of Canada

THURSDAY, NOVEMBER 28, 1957

WITNESSES:

From The Bell Telephone Company of Canada:

Mr. T. W. Eadie, President; and

Mr. Norman A. Munnoch, Q.C., Vice-President and General Counsel.

EDMONT G. CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1957.

STANDING COMMITTEE
ON
RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: Gordon K. Fraser, Esq.,
and Messrs.

Barbes	Holowach	Murphy (<i>Westmorland</i>)
Batten	Howe (<i>Vice-Chairman</i>)	Nixon
Begin	Johnston (<i>Bow River</i>)	Olson
Bonnier	Kennedy	Phillips
Blanchette	Lafontaine	Rea
Brassard	Lavigne	Rouleau
Broome	Leboe	Small
Byrne	Lewry	Smith (<i>Calgary South</i>)
Castleden	Macdonald (<i>Vancouver-</i>	Smith (<i>Lincoln</i>)
Chevrier	<i>Kingsway</i>)	Smith (<i>Simcoe North</i>)
Crouse	MacDonald (<i>Antigonish-</i>	Smith (<i>Battle River-</i>
Doucett	<i>Guysborough</i>)	<i>Camrose</i>)
Dupuis	Marler	Stanton
English	Martini	Stuart (<i>Charlotte</i>)
Fairfield	McBain	Taylor
Fisher	McGrath	Villeneuve (<i>Roberval</i>)
Gauthier (<i>Lac St. Jean</i>)	McIlraith	Vincent
Gauthier (<i>Chicoutimi</i>)	McIvor	Winch
Grills	McLeod	Wratten
Haidasz	McPhillips	
Harrison	Muir (<i>Cape Breton North</i>	
Herridge	<i>and Victoria</i>)	

A. Small,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, November 18, 1957.

Resolved,—That the following Members do compose the Standing Committee on Railways, Canals and Telegraph Lines:

Messrs.

Barbès,	Gauthier (<i>Chicoutimi</i>),	Muir (<i>Cape Breton</i>
Batten,	Grills,	<i>North and Victoria</i>),
Bégin,	Harrison,	Murphy
Bonnier,	Herridge,	(<i>Westmorland</i>),
Blanchette,	Holowach,	Murphy
Brassard,	Howe,	(<i>Lambton West</i>),
Broome,	Johnston (<i>Bow River</i>),	Nixon,
Bryson,	Kennedy,	O'Hurley,
Byrne,	Lafontaine,	Olson,
Campbell	Lavigne,	Phillips,
(<i>The Battlefords</i>),	Leboe,	Rea,
Chevrier,	Lewry,	Rouleau,
Crouse,	MacDonald	Small,
Doucett,	(<i>Antigonish-</i>	Smith (<i>Calgary South</i>),
Dupuis,	<i>Guysborough</i>),	Smith (<i>Simcoe North</i>),
Ellis,	Marler,	Smith (<i>Battle River-</i>
English,	Martini,	<i>Camrose</i>),
Fisher,	McBain,	Stanton,
Forgie,	McGrath,	Stuart (<i>Charlotte</i>),
Fraser,	McIvor,	Taylor,
Gauthier	McLeod,	Villeneuve (<i>Roberval</i>),
(<i>Lake St. John</i>),	McPhillips,	Vincent,
Gauthier (<i>Nickel Belt</i>),		Wratten—60.

Ordered,—That the Standing Committee on Railways, Canals and Telegraph Lines be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

FRIDAY, November 8, 1957.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 27 (Letter C of the Senate), intituled: "An Act respecting The Bell Telephone Company of Canada".

THURSDAY, November 21, 1957.

Ordered,—That the name of Mr. Smith (*Lincoln*) be substituted for that of Mr. O'Hurley; and

That the name of Mr. Fairfield be substituted for that of Mr. Murphy (*Lambton West*), on the said Committee.

MONDAY, November 25, 1957.

Ordered,—That the name of Mr. Barnett be substituted for that of Mr. Bryson; and

That the name of Mr. Cameron be substituted for that of Mr. Campbell (*The Battlefords*); and

That the name of Mr. Macdonald (*Vancouver-Kingsway*) be substituted for that of Mr. Ellis; and

That the name of Mr. Regier be substituted for that of Mr. Fisher; and
That the name of Mr. Winch be substituted for that of Mr. Lewry; and
That the name of Mr. McIlraith be substituted for that of Mr. Gauthier
(*Nickel Belt*); and

That the name of Mr. Haidasz be substituted for that of Mr. Forgie on the
said Committee.

TUESDAY, November 26, 1957.

Ordered,—That the quorum of the said Committee be reduced from 20 to 12
members, and that Standing Order 65(1)(b) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to print such papers
and evidence as may be ordered by the Committee, and that Standing Order 66
be suspended in relation thereto.

WEDNESDAY, November 27, 1957.

Ordered,—That the name of Mr. Castleden be substituted for that of Mr.
Barnett; and

That the name of Mr. Fisher be substituted for that of Mr. Cameron; and
That the name of Mr. Lewry be substituted for that of Mr. Regier on the
said Committee.

Attest

LEON J. RAYMOND,

Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, November 28, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines has the honour to present the following as its

THIRD REPORT

Your Committee has considered the following Bill and has agreed to report it without amendment:

Bill No. 27 (Letter C of the Senate), intituled: "An Act respecting The Bell Telephone Company of Canada".

A copy of the Committee's Minutes of Proceedings and Evidence in respect of the said Bill is appended hereto.

Respectfully submitted,

G. K. FRASER,
Chairman

MINUTES OF PROCEEDINGS

THURSDAY, November 28, 1957.

The Standing Committee on Railways, Canals and Telegraph Lines met at 10.30 a.m. The Chairman, Mr. G. K. Fraser, presided.

Members Present: Messrs. Bonnier, Blanchette, Castleden, Crouse, Fairfield, Fraser, Grills, Haidasz, Herridge, Holowach, Howe, Johnston (*Bow River*), Lafontaine, Lewry, Macdonald (*Vancouver-Kingsway*), MacDonald (*Antigonish-Guysborough*), Marler, Martini, McBain, McIlraith, McIvor, McLeod, McPhillips, Olson, Rea, Small, Smith (*Calgary South*), Smith (*Simcoe North*), Smith (*Battle River-Camrose*), Stanton, Stuart (*Charlotte*), Villeneuve (*Roberval*), Winch, and Wratten—(34).

In attendance:

On behalf of The Bell Telephone Company of Canada:

Mr. Charles E. Rea, M.P., Sponsor; Messrs. Duncan K. MacTavish, Q.C., and H. P. Hill, Q.C., Parliamentary Agents; Messrs. T. W. Eadie, President, Norman A. Munnoch, Q.C., Vice-President and General Counsel, E. A. Rolph, Executive Vice-President, P. C. Venne, Assistant General Counsel, of the company.

On motion of Mr. Rea, seconded by Mr. Martini,

Resolved.—That the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in relation to Bill No. 27, "An Act respecting The Bell Telephone Company of Canada".

The Committee commenced consideration of Bill No. 27 (Letter C of the Senate), "An Act respecting the Bell Telephone Company of Canada".

On the Preamble:

On request of the Chairman, Mr. Rea called and introduced the Parliamentary Agents and the officials from the company.

Mr. Munnoch presented and read a statement outlining the various proposals contained in the Bill, copies of which were also distributed to members present.

During the questioning of the witnesses, Mr. Herridge, moved, seconded by Mr. Winch,

That, in view of the hearings before the Board of Transport Commissioners on rate increases, the Committee postpone further consideration of this Bill until the hearings are completed.

After discussion, the Chairman cited a ruling by the Speaker of the House of Commons of June 12, 1951, and ruled the motion out of order on the grounds that the question of telephone rate increases remains "sub-judice" until a decision has been made thereon by the Board of Transport Commissioners.

After further consideration, the Preamble, Clauses 1, 2, 3, 4, the Title, and the Bill were adopted.

Ordered.—That the Chairman report the said Bill to the House without amendment.

At 12.30 p.m., the Committee adjourned to meet again at 10.30 a.m., Tuesday, December 3, 1957.

A. Small,
Clerk of the Committee.

EVIDENCE

THURSDAY, November 28, 1957.
10.30 a.m.

The CHAIRMAN: Gentlemen, we will come to order.

This is Bill No. 27, a bill to increase the capital of the Bell Telephone Company of Canada; it has been before the Senate and it has, of course, been in the House.

First of all, we should have a motion to print the minutes of the proceedings in English and in French.

Moved by Mr. Rea, seconded by Mr. Martini, that the Committee print 700 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in relation to Bill No. 27.

Motion agreed to.

We will leave until later the motion in respect of sitting while the house is sitting.

I am going to call on the sponsor of the bill to introduce the parliamentary agents and officers of the company. The witnesses will then be heard and questioned. I now call on Mr. Rea.

Mr. REA: Mr. Chairman, I will introduce the parliamentary agents and officers of The Bell Telephone Company of Canada. First, we have Mr. Duncan K. MacTavish, Q.C., who is counsel; Mr. H. P. Hill, Q.C.; Mr. T. W. Eadie, President of the Bell Telephone Company; Mr. Norman A. Munnoch, Q.C., Vice President and General Counsel; Mr. P. C. Venne, Assistant General Counsel; and the Executive Vice-President, Mr. E. A. Rolph.

The CHAIRMAN: Thank you, Mr. Rea.

Would the officers please come up to the head table and we will proceed with the preamble of the bill. Shall the preamble carry?

We will now hear from Mr. Munnoch.

Mr. Norman A. Munnoch, Q.C., Vice-President and General Counsel, Bell Telephone Company of Canada called:

The WITNESS: Honourable Chairman and honourable members of the House of Commons, my name is Norman Munnoch and I am Vice-President and General Counsel of the Bell Telephone Company of Canada. I wish, first of all, to express my appreciation of the privilege of being heard before this honourable committee.

Bill No. 27, an act respecting the Bell Telephone Company of Canada, consists of but four clauses.

Clause 1—would authorize the petitioner to increase its capital stock by \$500,000,000—that is, from \$500,000,000 to \$1,000,000,000, divided into shares of the par value of \$25 each. The par value is the same as that of its present shares of capital stock.

Clause 2—would re-enact the provision, which has already been embodied in the petitioner's special acts since 1929, requiring the approval of the Board of Transport Commissioners for Canada of the amount, terms and conditions of any issue, sale or other disposition of any part of the petitioner's capital stock.

The last sentence has been added to the existing enactment to clarify the effect of the board's approval.

Clause 3—would empower the petitioner, subject to the approval of the Board of Transport Commissioners for Canada, to pay commissions upon subscriptions for shares of its capital stock.

Clause 4—would repeal section 1 of chapter 81 of the statutes of 1948 which authorized the increase of the petitioner's capital stock to \$500,000,000. This section would be replaced by clauses 1 and 2 of this Bill.

Clause 1

Since an increase in capital is sought, it seems appropriate to show what the petitioner has done with its capital stock since its last increase was authorized by parliament in 1948.

At the end of 1947 the petitioner had unissued capital stock of the par value of.....	\$ 23,579,100
The statute of 1948 authorized an increase of (par value).....	350,000,000
So the petitioner has had available to it since the end of 1947 a total amount of capital stock of.....	\$373,579,100
After allowing for \$19,315,950 of stock under subscription by employees under its Employees' Stock Plan, the petitioner now has remaining ... of its capital stock available for its corporate purposes	\$ 34,695,875
So that from the end of 1947 to July 31, 1957 it has used up..... of its authorized capital	\$338,883,225

During this period December 31, 1947–July 31, 1957, the petitioner has expanded and developed its communication system for serving the public very greatly. The following statistical information establishes this fact, viz:—

	Dec. 31 1947	July 31 1957	Increase
Telephones.....	1,306,975	2,873,105	1,566,130
% Dial of Total.....	70%	87%	17%
Miles of Wire.....	4,966,432	11,858,982†*	6,892,550
In underground cable.....	3,542,193	7,974,597*	4,432,404
In aerial cable.....	1,153,523	3,581,071*	2,427,548
Open wire.....	270,716	303,314†*	32,598
Miles of long distance circuits.....	331,000	1,058,000‡	727,000
Average Daily Connections**—			
Local.....	8,497,000	18,463,000	9,966,000
Long Distance.....	165,000	323,000	158,000
Number of Central Offices.....	430	760	330
Employees.....	23,335	42,400	19,065

* June 30, 1957.

† Excludes Drop and Block Wires.

‡ December 31, 1956.

** For year ending Dec. 31, 1947 and 7 months ending July 31, 1957.

This expansion and development has brought about an increase in the petitioner's plant investment, i.e. land, buildings, central office equipment, poles, wires, cable, underground conduit, telephone equipment on customers' premises, motor vehicles, office furniture and other equipment of \$825,509,154 and was accomplished by an increase of \$319,567,275 in its capital stock and of \$272,500,000 in funded debt, or a total of \$592,067,275.

Need for Additional Capital

As already stated, as at July 31, 1957, the petitioner had available but \$34,695,875 of unissued or uncommitted capital stock. This remaining amount of authorized capital, \$34,695,875, is continually being reduced by the issue

monthly of shares which have been paid up under the petitioner's "Employees' Stock Plan". The operation of this stock plan will reduce this balance of authorized capital stock to something less than \$26,000,000 during the course of next year. This \$26,000,000 would fall far short of the amount required to enable the company to make an issue of capital stock to provide it with the capital funds it will require when it next finances by that means, that is by the issue of capital stock, and is wholly insufficient to enable the petitioner to carry on the very substantial construction program which it now has under way and which it must carry on if the citizens of Ontario and Quebec, in which the petitioner operates, are to have the telephone service they require and are demanding and to enable them to have communication with the citizens of the other provinces of Canada, the United States of America and elsewhere.

Construction Programme

Although in the period from the end of 1947 to the end of July 1957—10 years and 7 months—the petitioner has placed 1,566,130 (net) additional telephones in service and expended the sum of \$928,978,000 on construction, it is still faced with

- (a) a backlog of 25,517 unfilled applications for telephone service;
- (b) a current demand for new telephone service at the rate of about 10,000 applications per month;
- (c) a backlog of 53,080 applications for a higher grade of service, i.e. for individual line service for those with 2-party service;

These applications cannot be met until the requisite facilities can be provided. Of course, as the hon. members understand, it takes capital to provide these facilities.

- (d) But this is not the whole picture. There is still the need to increase the capacity of its long distance lines.

In 1947, the petitioner's long distance lines carried an average of 165,000 calls per day. By 1956, they were required to carry 317,000 calls per day and this volume continues to increase. Its local and long distance lines now have to carry some 18,000,000 calls daily; more than double the amount carried in 1947 (8,497,000). The petitioner has not been able to provide adequate facilities to carry this load. Then too the petitioner is faced with the requirement of adjusting its system so as to provide operator toll dialing and eventually customer toll dialing in order, not only to speed up its service but also to make its system work in conjunction with the systems in the United States which are providing this faster and more efficient service.

The provision of telephone facilities to meet these requirements and the heavy demand which faces the petitioner is not a mere matter of producing telephone instruments and stringing wires. Telephones and wires are useless unless they can be connected through switchboards and the other telephone equipment necessary to make them function. Switchboards and central office equipment are exceedingly complicated pieces of apparatus. They are not available ready-made. They must be designed, engineered and manufactured for the precise place where they are to function.

Then such equipment cannot be installed and put into service without having buildings in which to house them. These buildings and additions to buildings must be designed and erected.

It will be readily appreciated that the planning, designing, manufacturing and erecting of switchboards, central office equipment and buildings all involve projects which must be anticipated well in advance and require, under present

conditions, time to carry out. Projects of this nature often require from 18 to 24 months to bring to completion and put the facilities into service.

The planning of such projects necessarily involves the estimation of the probable future demand and requirements so that provision may be made for future development in carrying out the works and the benefit of the economic advantages of so doing may be had. It is therefore necessary to plan projects of this nature extending some years into the future.

In a situation of this kind, it is essential that the petitioner be in a position where it can see its way to finance such projects, because in a continuous construction program of the magnitude of that in which the petitioner is engaged, and has been engaged since the end of the war.

It is almost continuously committed to spend upwards of \$150,000,000, which involves serious risks.

Having regard to the nature of the service the petitioner furnishes and to its position with relation to the Canadian economy, in the petitioner's humble submission it is unthinkable that it should let itself, or be permitted, to run out of authorized capital required for providing and extending its essential service to the people of Canada.

While authority is sought for a substantial increase in capital stock—\$500,000,000—the construction program with which the petitioner is now faced requires substantial expenditures. In the next five years, 1958-62, the petitioner plans to spend an estimated \$962,000,000 on construction, that money is going to be spent broadly as follows:

Right of Way.....	\$ 1,000,000
Land and Buildings.....	66,000,000
Central Office Equipment.....	339,000,000
Station Equipment.....	236,000,000
Outside Plant.....	281,000,000
General Equipment.....	39,000,000
	<hr/>
	\$962,000,000

By years, this works out at

\$191,000,000 in 1958—	increase in telephones of 234,000
204,000,000 in 1959—	increase in telephones of 229,000
197,000,000 in 1960—	increase in telephones of 226,000
189,000,000 in 1961—	increase in telephones of 226,000
181,000,000 in 1962—	increase in telephones of 228,000

So, in that period, the number of telephones in service is expected to rise from this present 2,980,000 to something in the neighbourhood of 4,123,000 telephones in service.

This basic five-year plan is the result of estimates which are necessarily based on present views of industrial activity, business prospects and the progress of Canada during that period. This estimate of \$962,000,000 is based on continuous development studies and is the best estimate the petitioner can make in the light of those studies.

It is not intended to imply that all of this vast sum of \$962,000,000 is to be raised through the issue of capital stock. A substantial portion of it will be obtained through borrowings and other available resources of the petitioner, such as depreciation and such like, which will be used and invested in the plant to be constructed.

Taking these internal resources into account, the petitioner will require more than \$120,000,000 of new investor capital to finance its construction program for the year 1958.

Applying the 40 per cent debt ratio, which the Board of Transport Commissioners has laid down as being reasonable for the company, it means that for the year 1958 we must raise something in the neighbourhood of \$72 million by the issue of capital stock, and the rest by bonds.

It is a difficult thing to estimate in advance for the next decade or so the amount of money that will be involved in the construction program with which the petitioner is faced. It is apparent, however, from the five-year program that in the next decade very substantial capital expenditures will be required. This is strongly supported by the estimates of population and housing development submitted by the various authorities to the Royal Commission on Canada's Economic Prospects. In the past three years, the par value of stock which the petitioner has issued has averaged in excess of \$50,000,000 and it is expected that a high level of construction will be necessary in the years ahead.

Attention is drawn to the petitioner's special act chapter 41 of the statutes of 1902 section 2. This is the obligation imposed by law upon the company to provide telephone service.

Upon the application of any person, firm or corporation within the city, town or village or other territory within which a general service is given and where a telephone is required for any lawful purpose, the company shall, with all reasonable despatch, furnish telephones, of the latest improved design then in use by the company in the locality, and telephone service for premises fronting upon any highway, street, lane, or other place along, over, under or upon which the company has constructed, or may hereafter construct, a main or branch telephone service or system, upon tender or payment of the lawful rates semi-annually in advance, provided that the instrument be not situated further than two hundred feet from such highway, street, lane or other place.

This enactment imposes a statutory obligation upon the petitioner to furnish telephones and telephone service upon demand.

It is respectfully submitted that it is in the public interest that the petitioner be put in a position where it can meet this statutory obligation.

The only points in which the text of clause 1 differs from the present act are—

(1) the words "proper extension of the undertaking of the company" become

purposes, objects and undertaking of the company;

(2) the words "by and with the consent of a majority in value of the shareholders present or represented by proxy at any annual general meeting of the shareholders called for that purpose" become

by resolution of the directors duly confirmed by a majority of the votes cast at any annual or special general meeting of the shareholders called for considering the resolution;

This would bring the act more in conformity with modern corporate practice. The effect is the same and the objectionable words "majority in value of the shareholders" are eliminated.

I have never been able to find a lawyer to tell me what the "majority in value of the shareholders" means. It has been in the act for a long time, and we are trying to modernize the act by using more up to date terminology.

(3) the amount of authorized capital is increased from \$500,000,000 to \$1,000,000,000.

Clause 2

The first sentence of this clause is identical with the whole of the present provision contained in sub-section (2) of section 1 of the petitioner's special act chapter 81 of the statutes of 1948 which was first enacted in 1929.

Petitioner asks that the second sentence be added to the clause to make it clear that an issue of stock in conformity with the board's approval and applicable securities laws, makes the issue valid for all purposes.

The board is a "court of Record" and its order approving an issue of stock should bring finality to the matter just as does the judgment of any other court. Once the board's approval has been obtained and the securities acts complied with, no question should arise as to the legal effect of anything done with that approval.

The added sentence is also a necessary complement to clause 3 of the bill which extends the board's jurisdiction to the matter of commissions.

Clause 3—is new.

It empowers the petitioner to pay commissions to persons agreeing to subscribe, or procuring subscriptions, for shares of its capital stock.

Parliament has given this power to the British Columbia Telephone Company by chapter 85 of the statutes of 1951—

6. (5) Subject always to the provisions of subsection three of this section the company may pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company, or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares in the company.

Since January 1, 1946, the petitioner has issued \$359,467,000 (par value) of capital stock and \$277,500,000 of bonds. This is a total of \$636,967,000—the largest financing job that any company has undertaken in Canada.

Petitioner's stock is now held by 154,000 shareholders of whom 151,000, or 98 per cent, holding 16,400,000 shares, or 92 per cent, reside in Canada; 60 per cent of its shareholders are women holding 38 per cent of the shares and 11,000, or 7 per cent, are employees holding 6 per cent of the stock.

The petitioner is a Canadian owned company, and is not controlled by any foreign interests.

With the capital raising program with which petitioner is faced, which requires that new investors must be found to buy its capital stock, it may well be that the time may come when it will have to pay commissions to raise the capital it will require.

The petitioner should not be left to face such a situation without having the power to pay a proper commission in proper circumstances.

The payment of such commission would, of course, necessarily be subject to the approval of the Board of Transport Commissioners for Canada as required by clause 2 of the bill and this should ensure of the propriety of anything done under this clause.

Clause 4—is, of course, the repeal section to which reference has been made.

Having concluded the brief, there is just one other matter I would like to mention, and that is that, with a program to spend \$962 million in the next five years, hon. members of this committee will appreciate the effect that will have on employment in Canada. It takes a great many people to carry out the construction program with which the company is faced. With about \$26 million of uncommitted capital stock remaining available your petitioner's position is serious and its risks at the present time are great. I have mentioned that we are continually committed to an expenditure of \$150 million. For the next bit of stock financing we do we require more than double, or at least double the amount of this \$26 million we have left.

Now without the necessary authority to issue capital stock and to finance, by that means, we have been concerned as to what our position is going to be. With the risks that we now face of a commitment of \$150 million and a program of \$962 million we have got to consider that if the capital is not made available to us—we cannot make bricks without straw—we will have to proceed to give consideration to the curtailment of the construction program. It will have to be curtailed to the extent that we can carry on with borrowing and internal financing.

If this becomes necessary, we believe we will have to cut our construction program during the next 18 months by some \$75 million, or about 30 per cent. If that course should be necessary it may result in our having to reduce our forces by some 2,000 men. Our suppliers of equipment will have their orders cancelled and that may reduce their employee requirements by some 3,000 people. This would also involve a cancellation of some \$10 million for construction work, which would have a widespread effect. Now this is the program your petitioner is facing and with respect to which it comes to this parliament seeking authority to take the necessary steps to carry it out we submit, in the public interest in any way you care to look at it.

Thank you, gentlemen.

The CHAIRMAN: Thank you. Now, gentlemen, any questions on the preamble?

By Mr. Macdonald (Vancouver-Kingsway):

Q. Speaking as one member, I appreciate your very complete brief.—A. Thank you, sir.

Q. We appreciate that you were indicating an extension program and also that you are perhaps going to be able, by the issue of these additional shares, to widen the base of your ownership of the company. I would like to ask how you plan to issue the new capital. I think in the past you have issued share rights, have you not?—A. Yes.

Q. To existing shareholders?—A. Yes.

Q. I would like to refer to the last time it occurred and you will correct me if I am wrong. I understand that in 1956 you issued to shareholders of record the right to take up 1,725,000 of your shares at the price of \$37 each?—A. That is right.

Q. Exercisable up to 1956?—A. Yes.

Q. Now was not the market price at that time considerably in excess of \$37 per share?—A. Yes, sir. The offering price was about 80 per cent of the market quotation.

Q. 80 per cent?—A. The offering price was about 80 per cent of the market price the day before we got the approval of the Board of Transport Commissioners for the sale at that price.

Q. And you made that offer available only to your existing shareholders?—A. Only to existing shareholders, but those who did not want to take up this stock had the right to sell their rights and get what they could for them. I think about 60 per cent of our existing shareholders took up their stock. The other 40 per cent of the warrants were taken up as a result of sales of rights to other individual investors. I think we added about 15,000 new shareholders as a result of that issue.

Q. In quite a number of years you used the same method of disposing of your capital stock. I refer to the years 1946, 1947, 1949, 1952, 1955, and 1956.—A. Yes sir; nine times since the end of the war.

Q. An effect of an issue of that kind is to give a minimum capital gain of about 20 per cent to your existing shareholders.—A. That is rather a double-barrelled question. That is one way of looking at it. If a shareholder sells his rights, he is reducing his investment in the company and getting back some of

the capital which he put into it. It is true that under the Income Tax Act the value of the right is not taxable, but that is by express provision in the Income Tax Act.

Q. Yes, but that is the effect, that in the past you have given rights, and they were really capital gains to your existing shareholders.

Hon. Mr. MARLER: Mr. Chairman, I cannot understand why we should qualify these as capital gains. I think that if a question is going to be put, it should not be a loaded question. Let us just deal with the facts!

By Mr. Macdonald (Vancouver-Kingsway):

Q. I used the words "capital gain" because it is a non-taxable increase going to the existing shareholders as a result of this method of issuing their capital stock.—A. If you were a mortgagee with a mortgage on a house, had a chance to get back some of your principal, that would not be a capital gain—that is the getting of it back.

Q. I realize there are capital gains which take place in other fields.—A. It is not a capital gain.

Q. I am just questioning you, Mr. Munnoch, on the wisdom of the course you have followed in issuing rights to shareholders when you issue your capital stock, and whether or not it is really beneficial to the communities you serve.—A. Well, sir, I think it is undoubtedly beneficial to the community. We have had nine successful issues of this kind since the end of the war. It enables us to get these large sums of money we require and to get them in fast. It enables the existing shareholder to retain his proportionate interest in his investment in the business and after all, it is the people who have invested in the business in the past who have built up this big industry. Surely it is fair that they should be allowed to retain their proportionate interest.

For instance, particularly in the United States, shareholders are given the right—they have the first right to buy stock. I do not see how it does anybody any harm, because we are compelled to issue this stock at a price above par by the Board of Transport Commissioners for Canada, and those who invest in the stock have to pay a premium.

Q. Should that premium be as much as 20 per cent? That is the extent of the commission you are really paying.—A. No sir! We pay no commission.

Q. If you receive 80 per cent of the current price of the new shares that are issued, you are in fact paying a commission of 20 per cent.—A. Well, I do not think so. The point simply is this: if you are going to go out and sell a couple of million shares in the market, and you have to sell them in a short period of time, then you have to make them attractive to the investor or he will not take them. If he could go out and buy them on the market at the same price, he would have gone out and bought them on the market.

Q. What commission would you pay if the shares were underwritten in the usual way?—A. We have never done that. It would depend on what commission we could justify, if this bill is passed, before the Board of Transport Commissioners for Canada.

Q. Don't you think that if you could issue this capital at the market, that you could get more for it than 80 per cent if it was open to the public generally?—A. I do not think so, because by going to the public, you would have to fix a price below the market in order to attract investors. Otherwise they would be buying it on the stock market.

The CHAIRMAN: May I ask a question? Is it not true that as soon as you issue this stock the price of the stock goes down?

The WITNESS: It drops by pressure of the issue, and the value of the rights.

By Mr. Smith (Calgary South):

Q. My experience has been that in under-writing a company invariably receives a greater proportion of the capital for its working purposes from the issuance of rights than it would from under-writing through investment firms as a whole. Probably this company has followed this practice as being in the interests of the shareholders, and really to obtain the biggest proportion of capital back.

By Hon. Mr. Marler:

Q. Might I ask another question? Mr. Munnoch spoke of the results of the last issue of stock. I understood him to say that as a result of the fact that about 60 per cent of new shares had been taken up by existing shareholders, some 15,000 were added to the list of shareholders. I am not sure about that number of 15,000.—A. Approximately.

Q. You say approximately 15,000. Could Mr. Munnoch tell us approximately what growth there has been in the number of shareholders over the period, let us say, since January 1st, 1946 which is the date mentioned in the brief?—A. At the end of 1946 we had 28,840; at the end of 1947, 34,439; at the end of 1948, 38,889; at the end of 1949, 59,591; at the end of 1950, 77,965; at the end of 1951, 83,551; at the end of 1952, 100,890; at the end of 1953, 115,789; at the end of 1954, 114,782; at the end of 1955, 125,223; at the end of 1956, 140,726; and now, 155,000.

Q. So there has been an increase in the number of shareholders in a relatively short period of about 125,000?—A. Yes.

By Mr. McIvor:

Q. I would like to ask a question. You have no competitor, have you?—A. Well, in what sense? We have some, but none of them in the territory where we give telephone service. There are several hundred telephone systems in Ontario and Quebec that we do not own; and then in long-distance we have to compete with the telegraphs and also with the fast mails that the government is providing. But in the sense in which you mean it I think, in the territory where we give telephone service, we have no competitors.

Q. It is the Board of Transport Commissioners that keeps an eye on you, is it not?—A. That is our competitor!

By Mr. Winch:

Q. May I ask Mr. Munnoch for the years from December 1, 1947 to July 31, 1957, the period that he quoted—what is the amount of reserves that were used for capital expenditure and what is the amount of reserves that the company now has in hand that are available for future capital expenditure?—A. Let me look up a couple of figures. I can answer your last question right now. The number and amount of reserves available for further necessary expenditures is none. They have all been used up.

Q. I mentioned those specific dates because those are the ones you gave for capital expenditures in the past.—A. Yes, I shall have that answer in just a minute. Perhaps I should have brought an adding machine. From internal resources in the last ten years which you have mentioned we have taken \$407 million and invested it in plant.

Q. More than \$400 million?—A. Yes, sir.

Q. Could I also ask what you paid out in the same period for dividends?—A. We paid \$2.00 per share almost from the beginning of the company except during the depression years.

Q. Does your company do all its own purchasing and installation or does it let it out to some other company as is done by the British Columbia Telephone

Company?—A. The purchasing is done by the Northern Electric Company at cost to us. It acts as our purchasing agent.

Q. Who owns Northern Electric?—A. The Bell Telephone Company owns 90 per cent of the Northern Electric Company.

Q. And there is no charge on your company?—A. They charge their costs. We pay them at cost. They have to have a purchasing organization for their own purchases. Rather than the Bell Telephone Company having to set up a purchasing organization of its own, we use the purchasing organization of the Northern Electric Company at a cost saving to us.

Q. Is the Northern Electric Company also engaged in manufacturing?—A. Yes, sir. We pay no commission on what we buy from them in the way of manufactured products.

Q. Can you state whether or not the Bell Telephone Company would pay the same prices to Northern Electric on what they manufacture as would any other firm?—A. We pay a lower price than any other firm. This is something which is always investigated by the Board of Transport Commissioners because they must assure themselves that we are not paying higher prices to Northern Electric than we would pay if buying from anybody else.

Q. Do they also do the installation?—A. Yes, on some of the large switchboards which they manufacture.

Q. Is there a charge over and above cost on that?—A. Of course they have their profit.

Q. Is there any limitation on that?—A. There is the limitation that we can decide what profit they will get.

Q. If the Northern Electric Company is going to install equipment, is it done on a competitive basis? Can other firms put in a price for installation, or is it on a flat-rate charge?—A. I do not think there is anyone else in Canada who could do this kind of installation work. They manufacture these switchboards which are highly complicated things, and the manufacturer is the one, I think, who knows how to do it. They engineer it and install it and turn it over to us in working condition.

Q. You do not think it could be done even by a firm owned by Anglo-Canadian Telephone Company?—A. We do not do it in that way. We do not pay a commission like they do. We do not pay a commission on what is manufactured and installed for us. We pay a price. No commission is paid on that; the only commission we pay them is where they act as a purchasing agent and go out and buy for us materials which they do not manufacture themselves.

Q. What is the cost on that?—A. It is the Northern Electric Company's cost, audited annually by our auditors.

Q. Is that information submitted when you make an application before the Board of Transport Commissioners?—A. It is not always submitted but it is inquired into.

By Mr. Smith (Simcoe North):

Q. Who owns the remaining 10 per cent of the Northern Electric Company if the Bell Telephone Company owns 90 per cent?—A. WECO Corporation, which is a United States corporation.

Q. What are they?—A. A subsidiary of Western Electric Company. They own 10 per cent, other than qualifying directors' shares.

Q. How do the Northern Electric Company buy? Do they buy in Canada or is a great deal of the buying done in American manufactured equipment?—A. We only buy outside Canada what we cannot obtain in Canada. Now, with the advances which Northern Electric Company and other

manufacturers have made in Canada we do not buy very much in the United States. Sometimes there is a special piece of equipment which we are not able to obtain here, but that is all.

By Mr. Johnston (Bow River):

Q. If this bill is passed, would it be necessary then, after you have obtained the necessary working capital for your desired expansion, to raise the rates to gain more money?—A. I do not see how an increase in capital has anything to do with an increase in rates. Rates are based on your costs of operation. Capital is what you put into plant to earn your revenue.

Q. If you have obtained all the money for your desired expansion through this means of issuing an increased stock, would it not always naturally follow that you would be able to continue the service you are giving now without additional rates at increased cost to the people.—A. That would depend on whether wage levels remain as they are now and whether the cost of materials and supplies which we had to buy will remain as they are now, and whether the cost of bond issues will be low or high.

The CHAIRMAN: Gentlemen, I have a ruling from the clerk of the house in which he says we cannot, in this committee, discuss rates owing to the fact that rates are at present before the Board of Transport Commissioners. He gave me different citations here. I do not think we need go into it.

Mr. JOHNSTON (*Bow River*): That might be so, but I doubt whether, because of the fact that this rate hearing is before the Board of Transport Commissioners, that should prohibit us asking questions on rates which relate to the telephone company itself because they are now making an application. I think if we follow out your suggestion we should postpone the passing of this bill until such a time as the Board of Transport Commissioners finishes its hearing.

Some hon. MEMBERS: Hear, hear.

Mr. MCILRAITH: Mr. Chairman, your ruling is quite correct that we cannot discuss the rates which are before the court of record, but Mr. Johnston was discussing the capital of this company and therefore there is no conflict between what Mr. Johnston was questioning about and the matter of rates which is before the Board of Transport Commissioners.

The CHAIRMAN: I agree with you on that and that is why I allowed his question to be asked.

Mr. JOHNSTON (*Bow River*): Right now one of the things with which we as a parliament are concerned is the ever-increasing costs. I am not objecting to anything at all, but I am asking for information. What I am trying to get at is, if the committee here decides to pass this bill and permits the company to expand its capital program, then I think we as a parliament should have our eye on the result of this granting of increased capital expansion. If it results in increased charges on the public generally in my estimation it would not be a very good thing to happen at this time if it is at all possible to offset it. That is why I asked Mr. Munnoch the question, if this is granted could he tell us whether or not it would then be necessary for the company to ask, as we all know they are asking, for increased rates.

The CHAIRMAN: The reason I brought this up is that I did not want somebody to get up and say, why are you going to ask for different rates and why are you going to do this and do that. Your question, Mr. Johnston, was quite legitimate.

Mr. JOHNSTON (*Bow River*): I agree we should not deal with the question which is before the Board of Transport Commissioners. However, I take it Mr. Munnoch is going to reply to my question.

The WITNESS: I was going to read to you the rule which the Board of Transport Commissioners has laid down as their basis for regulations of the company's rates. It reads as follows:

"It must be admitted that under efficient management tolls and charges should be such that they would normally provide all reasonable and normal expenses including taxes and also a sufficient amount for reasonable dividends and surplus to maintain the credit of the company so that as and when advisable new capital can be attracted to meet new demands for service or for the modernizing of existing facilities. The interest of management and subscribers run parallel to this point and beyond this the subscriber should not be asked to contribute. With this in view it is incumbent upon the board in its regulatory capacity to give careful scrutiny to all items of expense incurred or proposed to be incurred and other matters which might reflect themselves in unjust or unreasonable or unjustly discriminatory impositions on the tolls and charges to be paid by the subscribers."

A great deal of this capital which we are seeking is going to be used for mechanization which if anything will tend to cut the inflationary spiral as far as the industry is concerned.

By Mr. Johnston (Bow River):

Q. The thing that is before the Board of Transport Commissioners now is whether or not in their opinion your rates are high enough to cover the things which you are discussing.—A. The thing to do is to cover the things that they are discussing now. What may be in the future, or where we will stand rate-wise at some future date, depends on the whole economic condition of Canada.

By Mr. Castleden:

Q. Has the Board of Transport Commissioners granted you any increase in rates?—A. I did not hear the first part of your question.

Q. You just read us the regulation under which the Board of Transport Commissioners grant you permission to increase your rate.—A. Yes.

Q. In how many cases have they granted this? Can you give me the dates and the amount, or the percentages?—A. Well, the last increase was in 1952.

Q. Is that 16 per cent?—A. I think that was about 16 per cent. Then in 1950 it was about 24 per cent, and the previous increase to that was in 1926 or 1927. I have not the percentage increase.

Q. Quite small? The present request is 15?—A. About 8 per cent.

Q. Eight per cent?—A. Eight per cent on the over-all of revenue requirements.

By Mr. Stanton:

Q. It is a known fact in the past that the Bell Telephone Company has absorbed or purchased many independent companies in Ontario and Quebec. Are they earmarking a certain portion of this extra capital to purchase future independent companies here in Ontario and Quebec?—A. We have no plans. I am told by Mr. Eadie, our president, that there is nothing under way at the present time to purchase any other company. It sometimes happens that some of these smaller companies get to the point where they go nearly broke, and they come and beg us to take them over. We have had forty purchases in the last five years. They are mainly companies which we had owned ourselves through stock control and we absorbed them for economic reasons into the

Bell Telephone Company. May I say this, that in both Ontario and Quebec we cannot buy any independent company unless we get approval of the Ontario Telephone Authority or the Public Service Commission of Quebec.

Q. Will you inform me, within the last ten years approximately, how many independent telephone companies you have purchased or absorbed?—A. Forty in five years. I do not think we have the ten-year figure. During the war I cannot think of any that we acquired.

Q. Well you must realize that the role of the smaller independent companies has in the past performed a useful function to the residents and citizens of our country, and I know that perhaps sometimes they are in financial difficulties. I want to ask you this question: you must realize too that they are the only competitive telephone companies to the Bell Telephone Company in Ontario and Quebec. Is it your desire or long-term view to perhaps absorb or purchase all these independent telephone companies?—A. I do not think we are entertaining any such idea. We usually acquire these telephone companies when a local company gets to the point where it cannot successfully operate. Sometimes provincial government pressure requires us to take them over, but we have no program of which I am aware to absorb them all.

Q. I am just wondering whether a portion of this capital that you are asking for now is to be used for that purpose?—A. I might say, sir, that we give these independent companies all the assistance that we can. We are very anxious to maintain them in operation, and we give them assistance. We give them engineering and technical advice. We help them in every way, and the Ontario Telephone Authority, which is the controlling body in Ontario, has highly commended us for the aid that we give not only to the Ontario Telephone Authority but to the independents over which they have jurisdiction. We do not want to take them over, but sometimes in the interests of providing service we have to take them over.

Mr. MACDONALD (*Vancouver-Kingsway*): With all respect, I think that the question of increases in capitalization is definitely relevant to the question of rates. I think what Mr. Munnoch has read makes it clear that one of the factors the Board of Transport Commissioners takes into account is a fair return on the issued capital and I think we must be able to discuss existing rates of the company. If the company has come to the Parliament of Canada, which is the supreme body—at the same time they have an application before the Board of Transport Commissioners—then they should withdraw that application temporarily from the board if they are taking the point we cannot discuss existing rates.

Mr. MARLER: It cannot be the company that is taking that point of view. That is the ruling of the chair.

Mr. MACDONALD (*Vancouver-Kingsway*): The company have brought both on at the same time. I think the chairman has relaxed his ruling somewhat already. We should be able to ask questions at the present time about the rates because I think that this, after all, is the supreme governing body in Canada, and one of our creatures, the Board of Transport Commissioners, should not interfere with the full and fair hearing before this committee.

The CHAIRMAN: Here is the opinion that was given. This opinion is sustained very clearly in a ruling by the Speaker of the House of Commons of June 12, 1951, (see *Journals of the House*, 1951, page 486):

On a motion for the house to resolve itself into committee of supply the following amendment was moved:

'in the opinion of this house no further increases in freight rates should become effective prior to consideration by parliament of the government's proposed legislation arising out of the report of the Royal Commission on Transportation.'

Whereupon Mr. Speaker ruled the proposed amendment out of order on the ground that any matters before the Board of Transport Commissioners for decision are of a judicial character within the meaning of the rule which prohibits the debate in the House of matters which are sub-judice, and that the present amendment would be bound to affect the adjudication by the board of any application for an increase in freight rates now before the board.

In accordance with citation 534 of Beauchesne's 3rd Edition, namely, 'committees are portions of the house and are governed for the most part by the same rules prevailing in the house' it would seem quite clear that the question of the Bell Telephone rates would come under the same ruling as that of June 12th, 1951.

By Mr. Herridge:

Q. Mr. Macdonald said the question of the present rates and the rates of the immediate future are related to a study of this bill. Could one of the witnesses tell us how long it is expected that this matter will be before the Board of Transport Commissioners before that matter will be decided?—A. I am sorry, sir, I cannot possibly guess as to how long the board may take to write its judgment after the hearing stops, in perhaps a couple of weeks from now. It will reserve judgment and take its own time to deliberate on it. How long that will be I cannot guess.

Q. How long will the hearings last?—A. They may last another week or two weeks.

MR. HERRIDGE: Well, Mr. Chairman, in view of the fact that a proper settlement of this bill is related to the question of present rates I move that this committee postpone its consideration of this bill until after the Board of Transport Commissioners has given its decision, after the hearings are completed.

THE CHAIRMAN: That is not a motion unless it is in writing. Any other questions?

By Mr. Smith (Simcoe North):

Q. My question deals with the division of the new capital which comes into the company. What proportion of that is likely to go into more or less orthodox telephone systems, and what proportion is being put into all these mysterious and fairly obscure things that we hear about, microwave transmission, television transmissions, and so on?—A. Well all those mysterious things are an effective part of giving telephone service today. These microwave systems are a type of system that is used for long distance operations which, once you have the system established, become a very economical method of operation. These so-called mysteries are all an effective part of the operation of the telephone service. I cannot classify these mysteries. Perhaps I hear a little more of them than you do, but they are all part of the general plant for telephone service, and it would be difficult to make any division.

Q. This work of the company that apparently goes on in far northern Canada, is that completely separated?—A. It is a contract business. We take it on a contract basis.

By Mr. Winch:

Q. I should like to ask Mr. Munnoch if in their share of holdings there are corporations or individuals that hold large blocks of shares of the Bell Telephone Company, and if so, who are they?—A. Well, the largest block that I know of, and I think it is the only thing that can be identified as a block,

is that held by the American Telephone and Telegraph Company. Its present holdings are 4.18 per cent of our stock. I think that is the largest identifiable block.

Q. The American Telephone and Telegraph Company?—A. Yes; not the Associated Telephone and Telegraph Company.

Q. May I ask how many directors of the Bell Telephone Company are also directors of the Northern Electric Company?—A. Four.

Q. Are there any directors of the American Telephone and Telegraph Company on the board of directors of the Bell Telephone Company?—A. One.

Q. Do you know whether any of the shares of the Northern Electric Company are also held by the American company?—A. None. The shares of the Northern Electric Company are held by the Bell Telephone Company, 90 per cent, and the Weco Corporation, the subsidiary of Western Electric, 10 per cent, and somewhere in between the two are some directors' qualifying shares.

Mr. HERRIDGE: In order to comply with your ruling, I move, in view of the hearings before the Board of Transport Commissioners on rate increases, that the committee postpone further consideration of this bill until the hearings are completed.

Mr. WINCH: I second that.

Hon. Mr. MARLER: I do not expect to quarrel with the right of the hon. member to put forward this motion but I think we ought to be realistic about it. Mr. Munnoch has told us that the hearings will go on a week or two before the Board of Transport Commissioners, and, I take it, it will probably be several months before the board would, in the ordinary course of events dispose of that motion.

Mr. CASTLEDEN: Only until the hearings are over.

Mr. MARLER: Mr. Chairman, whether it is until the hearings are over, or whether until the judgment is rendered, in my view, is not material. The matter is before the Board of Transport Commissioners at the present time and, for the life of me, I cannot see the connection between what the Board of Transport Commissioners may do now, with regard to the existing rate structure, which is based on the existing capitalization of the company and the power, which we are now considering, of the company, to issue additional stock at some time in the future.

It seems to me it is perfectly clear from the brief that the Bell Telephone Company, like a great many other public utility companies in Canada, in order to continue to serve the people of Canada, and more particularly the subscribers such as in the two central provinces, Quebec and Ontario, needs further capital. It seems to me it is quite elementary that the amount they require cannot be raised solely by selling bonds on the market. We all know there is a recognized reasonable proportion which bonds may represent of the capital involved. Therefore, necessarily, the company must have additional stock capital so that it may finance this program of improvement.

It seems to me, Mr. Chairman, that we are at a time, at this moment, when we should encourage private enterprise to make the kind of expenditure that furthers employment, and cuts down the number of those people who are not in jobs; which will be the result of spending these very substantial sums mentioned in the memorandum. For my part, I would be opposed to any motion which would be designed to postpone the consideration of this bill. My own feeling is, the sooner we get on with the job, the better it will be for those who are now unemployed.

Mr. McLEOD: I am inclined to agree with the speaker in respect of this motion that is before us at the present time. I do not agree, whatsoever, with any submission that we are here to inquire into the rates of the company. I

do not believe we are here primarily to discuss the internal management of the company. We are here solely to inquire into whether or not it is advisable to allow the company to float and to sell further issues of stock to the Canadian people, or to the shareholders. Therefore, it would appear to me that our function is to find out, and to satisfy ourselves whether, with regard to the record of the company in the past, it is—to put it in plain English—safe to allow this company to float another \$500 million in shares. In other words, we should decide whether or not the company is going to make good use of this money, or whether it is going to be—in slang perhaps—a swindle of the Canadian people. Therefore, Mr. Chairman, I think the main thing for us to consider is whether or not the company is giving sound management, and whether it intends to use the extra money for sound business practices.

In connection with that I notice on page three that you have a capital inventory increase of \$825,500,000 during the past ten year period. That was financed by capital stock, and bonded debt to the tune of \$592,067,275, which shows that there was a surplus in capital expenditure of \$223,441,889. In my humble figuring that could come from either profit or cash reserves. If it comes from profit during the past ten years, or the ten years in which it was spent, I would consider that the company has been pretty soundly managed, and operated well. Even if it came from cash reserves, I do not think that would give us the answer that the company is not managed soundly and well, and will not make good use of the \$500 million, in stock, which they are asking us to authorize.

Mr. SMITH (*Simcoe North*): I rise to speak against the motion to delay the decision here.

I think within the rules of the committee, and also within the ruling as to how much discussion may be permitted in regard to how rates are arrived at, a sufficient number of questions can be asked and answered to satisfy the questioners who are concerned with that particular part of the company's expansion. Since the expansion is necessary, and a vast amount of money will be spent, as we have been hearing, and in view of the fact that there is a certain increase in unemployment in parts of the country, I do not think any delay of this hearing would serve a useful purpose, either in regard to a reduction of rates or otherwise. I do not feel that a sufficient number of questions can be asked to satisfy those people who are so inclined.

Mr. JOHNSTON (*Bow River*): Mr. Chairman, I just want to say a word because maybe I started this discussion going when I asked questions regarding the possible increase that may result from the passing of this bill.

It is my understanding that it is not within the competence of this committee to make a thorough investigation of the proposed increases the company may desire. If we were to accept the amendment it seems to me we, in this committee, would be holding up the proceedings that we are endeavouring to follow, for a very considerable time. We cannot possibly go into the whole rate structure of the company, to see whether or not it was permissible for it to increase the rates, because that would entail the calling of hundreds of witnesses. I do not think we would be in a position to judge properly whether or not the company should increase their rates, or to what extent they should do so.

I do think—and this is the only point I had in mind when I asked that question—that we have a responsibility to the public.

One of the things that did concern me, and which the witness brought out very clearly was the result to our general economy. I thought the witness handled that very well when he pointed out, in his brief, that as a result of passing this bill, it is going to engage a great many more people in work, which will mean quite a large number of people who are going to be employed on this project.

It certainly is not my intention to offer any obstruction to the work of this committee, to prevent us getting this bill through. The only purpose I had in mind was to get information, and the witness answered that to my satisfaction.

I do not think I could support the resolution because, in my mind, it would withhold the passing of this bill for many months. In my experience in the house, I have seen committees like this, which drag on, and on and on. I do not think that type of procedure would be in the interests of Canada; I do not think it would be in the interests of the company, or of parliament either. For that reason, I do not think I could support the motion.

Mr. WINCH: Mr. Chairman, I am afraid there is a slight misunderstanding here. As far as I am concerned, I recognize the need for expansion and the need for money for that expansion. The question in regard to rates can be tied in as to whether or not the company's request for \$500 million is what should be done. It is our desire to find out whether the issue of new shares is going to increase the cost over and above what otherwise would apply, and therefore have an effect on rates. We have heard or read in the past that companies of this nature very often borrow on a far higher percentage than the Bell Telephone Company. That is how it ties in with the question of rates.

That is the reason we thought it should be held over, not for a long time but just until the hearings are completed, so that we would at least know the evidence and information that was placed before the Board of Transport Commissioners which, in turn, might answer a lot of our questions. It would only be a very short delay. I can assure you, sir, we are not blocking or unduly delaying this legislation, as far as we are concerned.

The CHAIRMAN: I would ask Mr. Munnoch to tell us how that capital increase might affect the rates.

The WITNESS: The Board of Transport Commissioners for Canada decide how we are going to finance our expansion program. They have decided in the past that 40 per cent of the expansion must come out of debt securities, leaving 60 odd per cent to come out of equity securities. If this bill is to be delayed until the Board of Transport Commissioners hearing is over, and the decision given—

Mr. MACDONALD (*Vancouver-Kingsway*): That is not the motion, Mr. Chairman. The motion would only delay it until the hearings were completed, so that we could see what evidence had been submitted to that board.

The WITNESS: Until the board has rendered its judgment, as I understand the law, the matter is still subjudice, and the judgment may not come out until early next year. This would mean that we would get no relief for increased capital until probably the next session of parliament. In that case, as I mentioned, we would have to go ahead and start to curtail our construction program. We have no alternative. As I mentioned, if you do not give us straw we cannot make bricks. We have got to have that capital, or else we have to start to cut down on employment by curtailing our operations, in order to keep ourselves in a sound position. We cannot do anything else.

The amount of capital that we are going to need over that period, which we have shown in the memorandum, is not going to be one issue of \$500 million. I do not want any hon. member to think that. There will be issues from time to time as we need capital, and as the Board of Transport Commissioners approve the issue, when we have satisfied the Board of Transport Commissioners that we need so much money, and that we are going to issue the stock on such and such terms. We have got to get the approval of that board, before we can do anything.

Now here we are rendering a public service; we need the capital to give the people we serve a telephone service. There are 10,000 of them a month

coming in for telephone service. If they are to do without service, well, we have done the best we can. It is beyond our capacity to build without capital.

The CHAIRMAN: Gentlemen, I am going to rule the motion out of order owing to the fact it only says "further consideration of this bill until the hearings are completed." Now, according to the ruling I gave when the rates came up it is "until the decision is given." As it has been mentioned, that might take months. I am going to rule this motion out of order. Any objections?

Now, gentlemen, Mr. Olson.

Mr. OLSON: Mr. Chairman, on the motion I would like to know this. Has the company to date curtailed its operations because of a lack of capital and secondly when would you find a serious or a large curtailment of your operations and extensions if this bill is not passed? The third part is, when does the company feel that the expansion cost of the passage of this bill will begin to show in the employment picture?

The WITNESS: At the moment with our construction program going on in full force, we are increasing employment. The funds that we have now for that construction program will not last us for very long. We are spending money at the rate of \$10 million a month on construction. Now in anticipation and in the hope that this bill will be passed, we have not started to curtail our construction program but if we are faced with the fact that this bill is not going to be passed, the only sensible thing for us to do would be to start curtailing right away and that is going to mean within the next 18 months we will have to lay off some 2,000 employees. The Northern Electric will have to lay off some 3,000 employees and building contractors will, as a result, just have to drop \$10 million worth of building contracts and what the effect of that on employment will be I do not know, but we cannot risk going ahead. I mentioned to the committee that we are continually committed to \$150 million, for goods and, materials ordered but not yet paid for, and we cannot continue very long without additional capital. If we are going to be good administrators, we will have to start cutting our suit to our cloth just as fast as we can. In the last 12 months we have added 2,084 employees.

By Mr. Winch:

Q. I have only one question. Is there anything to stop your company in the immediate future on capital expenditure having more than 40 per cent come from the field of borrowing?—A. The 40 per cent is a general average, a general long-term average. If you finance today by stock, your debt ratio goes down. If your next piece of financing is by bonds, it goes up. It is going up and down all the time. The investing public know that the Board of Transport Commissioners has approved this 40-60 debt ratio. Now if we start changing that or monkeying with it, we do not know what the investing public will think of our securities. If you get too much debt out, nobody will lend you any more money.

Q. I understand you always have and I presume you are in the future, going to pay at the rate of \$2 a share?—A. We hope so.

Q. Now that works out at \$25 par?—A. Yes, \$25 par.

Q. That is 8 per cent?—A. 8 per cent on par value but nobody is buying stock at par value today.

Q. You pay 8 per cent.

Mr. MARLER: Depending upon what the investor pays for the stock.

By Mr. Winch:

Q. It depends on your surplus revenue as to how much you pay out, what is your rate of borrowing?—A. Borrowing?

Q. Yes.—A. The last was 5½ per cent.

Q. Is not that cheaper than your dividend ratio?—A. Generally speaking, up to a point borrowing is cheaper than issuing equity capital but if you borrow too much then the cost of your borrowing goes up and so does the cost of your equity capital, or else you cannot sell your equity capital.

Q. So you bring it up to an equalization and that is when you start again on your capital?—A. Equalization is to try to adhere to this 40 per cent debt ratio which the Board of Transport Commissioners, after thorough investigation, has set as reasonable for our company. There are few companies having to raise as much capital as we have to raise.

Q. You are still borrowing $5\frac{1}{4}$ per cent?—A. The last issue was $5\frac{1}{4}$.

Q. I understand from the government the interest rates are going down?—A. Maybe they are going down, but we have to judge what the money market is at the time we need the money. The British Columbia Telephone Company are paying $5\frac{3}{4}$ per cent on the \$10 million they are now offering.

By Mr. Lewry:

Q. I did want to bring here the statement carried in last night's Ottawa Journal of the evidence before the Board of Transport Commissioners stating that Mr. Hirsch, from Washington, advised that the company could finance expansion projects more cheaply by bond instead of stock issues. He said the amount of company debt in bonds should be increased from 36 per cent to between 45 and 50 per cent. He also said the company could safely carry more long-term debt and this would enable it to finance at a lower cost than through stocks and said that the Bell can carry as much, if not more, long-term debt than leading electric utilities.

I believe Mr. Munnoch has partially answered it. Why does Bell not finance on bond issues in this case? With the threat—I do not mean it from Mr. Munnoch's point of view—of increasing unemployment if this bill does not go through. Could not that be overcome if, in this case, a bond issue was made to take care of this needed expansion?—A. First let me say we are not through with Mr. Hirsch yet in the rate case. Secondly, we do borrow. We raised, I think I gave you the figure, \$232 million of debt since 1947. Our debt now is \$343 million that we have raised by bonds.

By Mr. Winch:

Q. What is the average interest rate?—A. The average interest rate is about—it varies from $3\frac{3}{4}$ to 5 per cent depending on the money market at the time we raise the money.

By Mr. Smith (Battle River-Camrose):

Q. I wonder if Mr. Munnoch could tell us approximately the number of people they have employed in the construction phase of their company?—A. We will have the figure in a minute, sir.

By Mr. Grills:

Q. There has been no mention and I wonder if it does not merit consideration, of the advancement of our communication system in Canada in which the Bell Telephone has shown leadership. I wonder if it does not merit consideration in our national or civil defence and also in national economy. I wonder if it is not worthy of some consideration?—A. Well, as far as national defence is concerned of course you have got a system that extends—at least our system extending, through our territory, is connected with virtually every other telephone system in Canada and in the United States and overseas, so that you have the fastest possible means of communication available in national defence. As for the economy of Canada—well, the expenditure of \$962 million with the

employment and industry that that involves must have a very important part, although not perhaps as large as the economic effects which the government and parliament can play in the country; we are doing our part and I think we are doing a very substantial part from the point of view of one corporation.

The CHAIRMAN: We now have an answer to Mr. Smith's question. About 7,000 people are employed in construction.

By Mr. Grills:

Q. Supposing this bill is not passed, what percentage of those 7,000 people would likely be laid off work within the next six months?—A. 30 per cent.

By Mr. Holowach:

Q. I would like to ask a question following the reasoning of Mr. Stanton. I am concerned about the plight of the small and medium sized business in Canada. You will appreciate that there is a very dangerous trend developing in Canada with respect to mergers. Am I correct in assuming from your statement that this capital required, \$962 million, is not to be used, or is not being asked for the purpose of acquiring the existing assets of some of those smaller independent companies?—A. Well, sir, it is not being asked for that purpose, and we have no program or projects before us now for any such acquisitions. But I cannot assure you that if at some time in the near future some small telephone company starts going bankrupt and we are called upon by a provincial government to step in, that we won't have to do so.

Q. You yourself indicated that over the past five years you have acquired 40 independent smaller companies.—A. Yes sir.

Q. 40 seemed to me to be a very large number, and I just wanted to indicate a very dangerous trend with regard to mergers.—A. At least 17 of them were companies of which we owned the stock and had owned it for years before and we decided after careful economic examination that we could operate more effectively by taking them in as part of our system. Some of them were municipal telephone systems and the municipalities were very anxious to get rid of their telephone systems and get us in there to operate them. The Ontario telephone authority put on some pressure in certain cases for us to come in and buy, so that people in that locality could get telephone service. I do not think anybody can suggest, if he knows the facts, that we are trying to grab up small telephone systems. We do not want them. But in the interests of giving telephone service to Ontario and Quebec, and indirectly to the rest of Canada through long distance lines, we simply have to do it.

By Hon. Mr. Marler:

Q. How many telephone companies are there in Quebec? Have you any idea?—A. There are about 700 in Ontario and Quebec.

By Mr. Holowach:

Q. My second question deals with the substantial construction program. Is that program to be confined to the provinces of Ontario and Quebec?—A. Yes sir.

Q. I have one further question: with respect to the \$962 million. Is that amount to be met by the issue of capital stock?—A. No. \$962 million is the total expenditure and I said that we would raise about 60 per cent by capital stock, 40 per cent by debt, and that we would make up the rest of that \$962 million from our internal resources.

Q. I wondered if you could give us some information with respect to the depreciation which has been piled on, let us say, during the past five years?

—A. Yes, we can give you that. Mr. Marler asked for it. There are 700 companies in Ontario and Quebec; and there are 2,700 telephone companies in Canada.

The CHAIRMAN: Mr. Howe is next.

The WITNESS: I have a question to answer here. In the last ten years \$240 million from our depreciation reserves has been invested in plant.

By Mr. Howe:

Q. I wonder, in connection with Mr. Smith's question a few moments ago, and in respect to developments and the expenditures to be made for cable, underground and overhead, does the Bell Telephone Company foresee at some time in the future, not too far away, a time when its cables will be eliminated altogether?—A. Well, I do not know that we foresee it, but there is continuous development going on in the art of communications in the long distance field where we use carrier channels, and we eliminate cables; that is the radio type of operation. There is no cable used there except a little bit in the towers which transmit from one point to another. Mr. Eadie reminds me that it would now be possible for everyone to carry a telephone around in his pocket if it were not for the fact that there are not enough frequencies in the spectrum to go around. I think the Hon. Mr. Marler knows a bit about that.

By Mr. Macdonald (Vancouver-Kingsway):

Q. I have two or three short questions. First, in view of the employment situation which you say requires you to have this capital issue immediately, do you not think that you should have made your application to parliament sooner? Would that not have been the wiser course for the company to follow?—A. It probably would have been the wiser course but we are always faced with the problem that if we come and tell you that we now have some \$34 million available which subject to the employees stock plan to issue—next year it will be around \$26 million—we are always concerned that if we come too soon we will be told to go away and to come back later. You never know just how to answer the question. But we try to carry on as best we can, and we come when we find that we need to seek adjustments and increased stock authority.

Q. You have been getting rather close to the practice of "brakemanship", which does not seem to be in great favour at the present time. You mentioned \$2 per share. That was dividend?—A. That was dividend.

Q. And the earned amount on your shares at the present time is more like \$2.40.—A. It was \$2.40 last year; and for nine months this year it is \$2.25.

Q. In the present application you are now making there would be an increase of the \$2.40 to \$2.65 on your shares, in your rate application?—A. Yes. But by autumn of next year we will be back to the \$2.40 presently earned.

Q. You mean to \$2.65 earned?—A. \$2.65 is our estimate, and that is what we are asking for, that is, in 1958; it won't be that much.

Q. My final question is this: can you assure the committee that none of the money from this issue will be used to promote that type of phones where people using them may see the other people to whom they are talking?—A. No, I cannot assure you of that, because if people want that kind of thing we will have to provide it, but they are going to pay for it.

The CHAIRMAN: Shall the preamble carry?

By Mr. Herridge:

Q. On page 11 of your brief I was very much interested in the short paragraph where you say:

The petitioner is a Canadian-owned company, and is not controlled by any foreign interest.

Would you care to give us an explanation of that?—A. Yes sir. I think I have given it to you in the paragraph just above it, where I say:

Petitioner's stock is now held by 154,000 shareholders of whom 151,000 or 98 per cent holding 16,400,000 shares or 92 per cent, reside in Canada; 60 per cent of its shareholders are women holding 38 per cent of the shares, and 11,000 or 7 per cent are employees holding 6 per cent of the stock.

That is all we mean by "a Canadian-owned company". The people who own that 92 per cent of the stock reside in Canada.

Q. And they are Canadian citizens?—A. I cannot guarantee that.

Q. Are any of the directors of your company directors of any American companies?—A. Yes. One of our directors is. No, no. None of our directors are directors of any American telephone company.

By Mr. Castleden:

Q. Is Mr. "Romnes" of New York not one of your directors?—A. Yes.

Q. And is he not a director of any other American company?—A. Yes. I thought I was asked if any of our directors were directors of any American companies.

By Mr. Herridge:

Q. Perhaps I might repeat my question. Are there any directors of American telephone companies who are directors of your company?—A. Yes. Mr. "Romnes" is the only one.

The CHAIRMAN: Shall the preamble carry?

By Mr. Castleden:

Q. There have been some extensions in the microwave system. Has your company built microwave stations across Canada?—A. No, but we have built them across Ontario and Quebec where we are linking up with the systems operating in other provinces.

Q. And those are owned by the provinces themselves?—A. Yes sir. We provide them in our own territory. In the case of Manitoba it would be the Manitoba system; in the case of Saskatchewan it would be the Saskatchewan system; in the case of Alberta, it would be the Alberta system and they will own all the sections in their own territory.

Q. It is not a case of a lease?—A. No. They build them and own them, and we only come into it for telephone purposes.

Q. Have these any value or purpose with regard to television programs?—A. Yes sir.

Q. In the same way as with radio?—A. Yes.

Q. What is the extent of your contract with the federal government with regard to communication to the northern area? What is the total value?—A. We are doing the maintenance on a contract basis for the government on about three-fourths of the mid-Canada line. The rest of it is being maintained by an electronic company; it is a maintenance job, a contract job.

Q. What is the expenditure on that annually?—A. I am afraid I do not know the answer to that. It is a matter of government contracts on a fixed fee basis. It is subject to renegotiation if the government thinks we are getting too much.

Q. Has there been any renegotiation in recent years?—A. No. We are just starting.

Preamble agreed to.

Clause 1 agreed to.

On clause 2—Issue and sale of stock, subject to approval of Board of Transport Commissioners for Canada.

By Mr. Castleden:

Q. On clause 2 the explanatory note says:

The clause re-enacts subsection (2) of section 1 of chapter 81 of the statutes of 1948, which would be repealed by clause 4 of this bill. The last sentence has been added. It is a necessary complement to clause 3 of this bill which extends the jurisdiction of the Board of Transport Commissioners for Canada to the matter of commissions which may be paid in respect of the issue of capital stock. Once the Board's approval is obtained, no question should arise as to the legal effect of anything done pursuant thereto.

is this being done without any amendment to the act which set up the Board of Transport Commissioners?—A. The Board of Transport Commissioners' authority over our capital stock arises from our own special acts. In 1929 the provision was put in our special act of that year which said:

The Company shall not have power to make any issue, sale or other disposition of its capital stock, or any part thereof, without first obtaining the approval of the Board of Transport Commissioners for Canada of the amount, terms and conditions of such issue, sale or other disposition of such capital stock.

That has been in our special act since 1927. We are seeking to add this additional sentence so that when the board says we may issue the stock in conformity with its orders, or with a certain commission which it approves, after examining into the transaction, then it will not be open to question.

By Hon. Mr. Marler:

Q. Has that question arisen in past issues?—A. No sir, because we never had to pay commissions.

Q. I am referring to the validation of a stock issue and the decision of the Board of Transport Commissioners.—A. It arose once but it did not get very far, when the city of Montreal attempted to block one of our stock issues. It would be a very serious thing, when we start a large stock issue, if somebody were to go to the court and obtain an injunction to tie it up after it had been cleared by the Board of Transport Commissioners. It would strangle the whole operation.

Clause 2 agreed to.

On clause 3—Company may pay commissions on subscriptions.

By Mr. Castleden:

Q. This clause has to do with commissions?—A. Yes.

Q. Under this clause the board is to give permission to you to pay commissions in the sale of your stock?—A. If we apply for it and can show a reason for it.

Q. Do they set the amount of commission payable?—A. They would have to approve the amount and the terms.

Q. In every case?—A. Yes.

Q. The board has complete control over it?—A. Yes. All it has to do is say no, and we are in difficulty.

Clause 3 agreed to.

Clause 4 agreed to. The Title and Bill adopted.

The CHAIRMAN: Shall I report the bill?

Agreed to.

Gentlemen, on Tuesday morning at 10.30 we will have before us Bill No. 30, an act respecting Ottawa and New York Railway Company.

Is that agreeable? I understand the witnesses will all be here.

Mr. MACDONALD (*Vancouver-Kingsway*): Mr. Chairman, will the evidence of today's hearing be printed before the matter reaches the House of Commons?

The CHAIRMAN: There is a chance this bill will come up tomorrow. If that is the case it will not be ready. If it is later it will be ready. However, there will be a typewritten transcript which the members of the committee may see by getting in contact with the Committees Branch.

Mr. MACDONALD (*Vancouver-Kingsway*): I think we should make every effort to have the Queen's Printer print the proceedings so that it can be before the other members of the house when they come to debate the bill itself.

The CHAIRMAN: I will ask the Committees Branch to endeavour to have it as quickly as possible.

Mr. SMITH (*Calgary South*): With respect to the dates for the future hearings of this committee, I wonder if you would attempt to co-ordinate the dates because I happen to know the External Affairs committee is also meeting on Tuesday morning.

The CHAIRMAN: During the seventeen or eighteen years I have been here we have been trying to do this. All I can say is that the members have to split themselves up.

The committee adjourned until Tuesday, December 3, 1957.